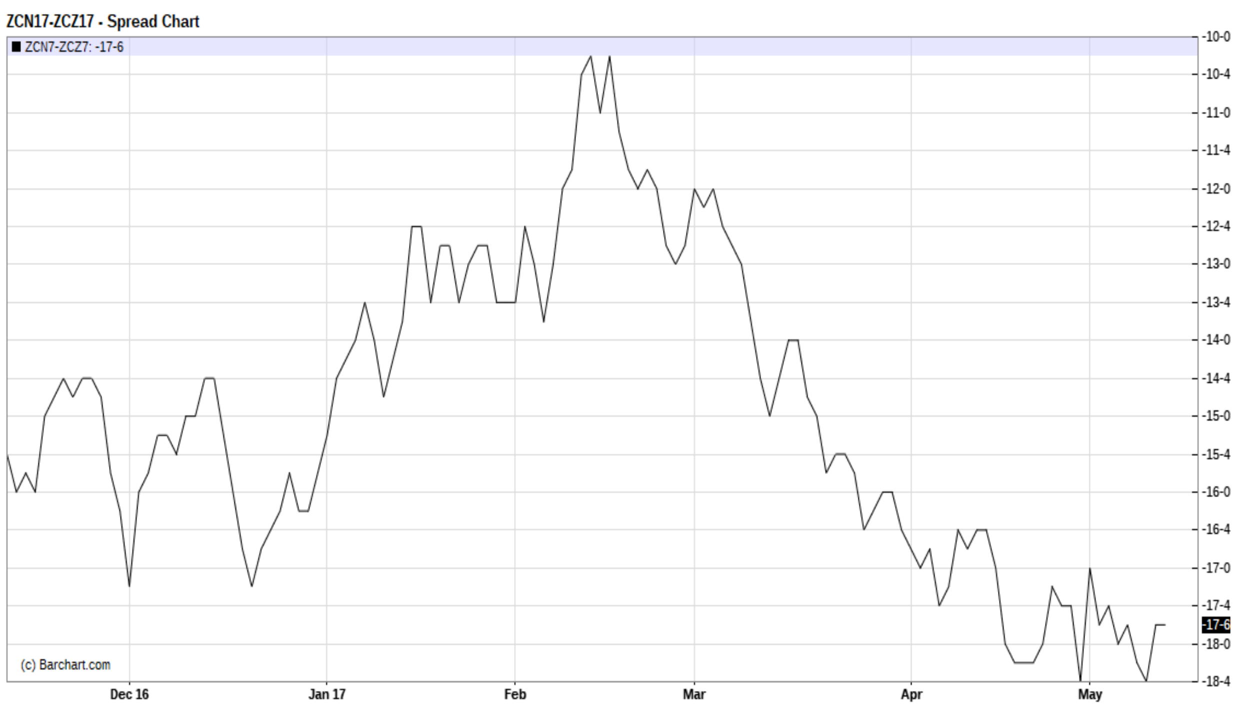
Archer Financial Services, Inc.

A Tale of Two Spreads

By Matthew Krupski (May 12)

Grain traders are keeping a close eye on old-crop/new-crop spread markets as the spreads in both the soybeans and corn markets are trading near contract lows. As we advance into planting season, these traders should keep a keen eye on these markets as they could see an increase in volatility.

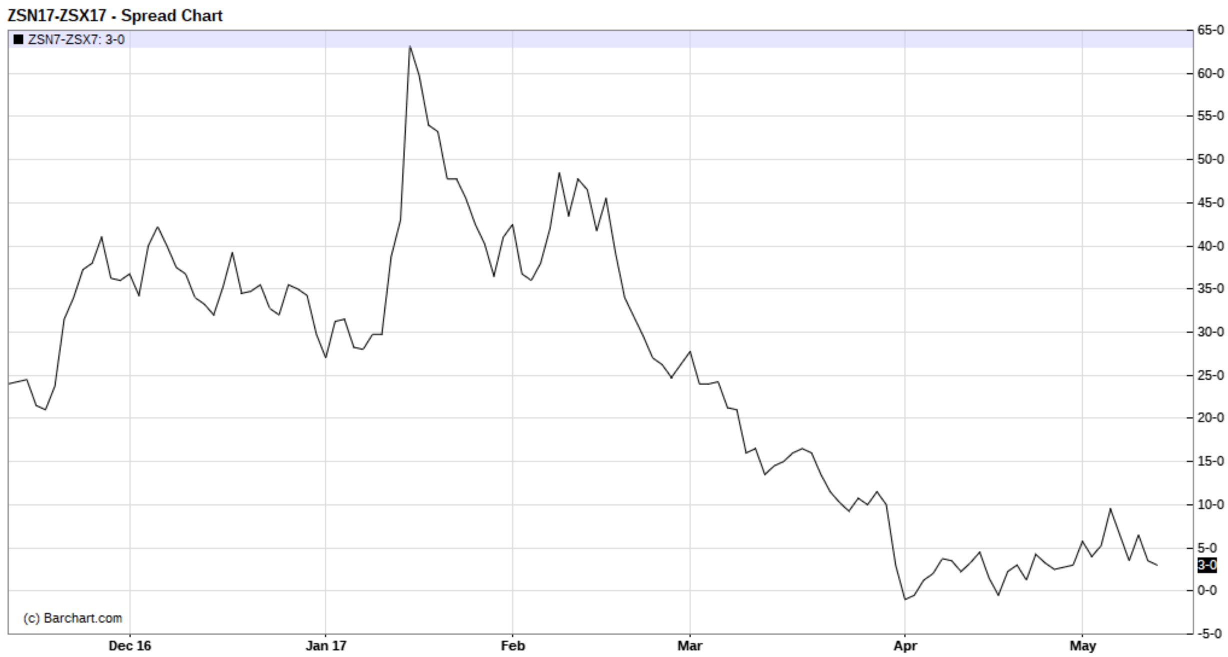
The July/December corn spread has recently traded down to its contract low of -18.5 cents, with July trading at a discount to December. December (new-crop) futures have remained relatively strong in part due to an expected 4% decrease in planned acres this year. July futures (old-crop) meanwhile, have languished as 2016's record crop has kept existing stocks plentiful.



Unlike corn, old-crop soybeans are currently trading at a premium to the new-crop futures. Record South American production coupled with an anticipated 7% increase in U.S. planted acres have led analysts to predict the 2017 soybean crop will be the largest ever. Current soybean stocks, while relatively ample, are not as plentiful as corn. The record soybean stock that analysts are anticipating for the 2017/2018 crop year have led traders to sell new-crop futures and as a result November (new-crop) futures are trading at a discount to July (old-crop) futures.

Despite the reduction in corn acres, I would expect this year's corn production to be very healthy. Advancements in seed technology have led to increasing yields almost every year. Spread traders could consider buying July futures and selling December futures with the anticipation that the rather wide 18 cent spread will decrease.

In soybeans, I would expect new-crop futures to continue to get punished. The size of this year's crop could be truly massive. Here too, traders could consider buying July futures and selling November futures with the anticipation that July will outperform November.



All charts provided by Barchart.com

In both markets, the wild card will be demand. Currently, the USDA anticipates demand to increase to an extent that much of this upcoming soybean crop is used. Should the improvement in the global economy accelerate, they could be proven correct. If this happens, there is a good possibility of a short covering rally in new-crop futures in both markets. With this in mind, remember that futures and options trading is a risky endeavor and trades should only be made after discussion with a qualified professional.

My many years of trading futures markets does make a difference. Feel free to call or email me if you have any questions at 312.242.7978 or matthew.krupski@archerfinancials.com.

Would you like to open an account with Matt? Go to our interactive New Account application at Open An Account. It is fast, saves on postage and it's green.

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